

Global Markets Research

Fixed Income

Fixed Income Daily Market Snapshot

UST		
Tenure	Closing (%)	Chg (bps)
2-yr UST	1.85	-1
5-yr UST	1.84	0
10-yr UST	2.06	-1
30-yr UST	2.58	-1

MGS		GII*		
Tenure	Closing (%)	Chg (bps)	Closing (%)	Chg (bps)
3-yr	3.26	-1	3.31	0
5-yr	3.42	0	3.43	0
7-yr	3.54	0	3.56	0
10-yr	3.58	-1	3.61	0
15-yr	3.79	-1	3.83	0
20-yr	3.98	0	4.01	2
30-yr	4.18	1	4.24	0

* Market indicative levels

MYR IRS Levels		
IRS	Closing (%)	Chg (bps)
1-yr	3.36	0
3-yr	3.36	0
5-yr	3.41	-1
7-yr	3.47	0
10-yr	3.54	-1

Source : Bloomberg

Upcoming Government Bond Tender

Nil

US Treasuries

- US Treasuries lacked momentum and direction again as traders and investors refused to take significant positions ahead of the Fed's MPC meeting tonight. Overall benchmark yields closed a mere 0-1bps lower following a surge in July consumer confidence which added to the downside pressure to June's PCE core deflator. The curve shifting slightly lower as the UST 2Y ended at 1.85% and the much-watched 10Y at 2.06%. The Fed's rate cut journey is expected to commence by at least 25bps whilst a Trump trade tweet impacted equities. Nevertheless the Fed may disappoint markets this week; similar to ECB's decision last week if any other outcome to an expected 25bps rate cut takes place. Expect attention to focus on the FOMC rate decision on tonight and Non-Farm Payrolls on Friday;

MGS/GII

- Local govies saw momentum fizzle out on lower secondary market volume of RM2.42b ahead of the mid-week break with interest seen mainly in the shorter-end i.e. off-the-run 19-21's and also benchmark 10y, 20Y bonds. Overall benchmark yields ended mostly mixed between -1 to +2bps with the 5Y benchmark MGS 6/24 almost unchanged at 3.42% whilst the 10Y MGS 8/29 edged another 1bps lower at 3.58%. GII trades maintained at about 23% of overall trades. Although the nation's expansion may experience less damage to growth than regional peers, investors are aware of downside risks emanating from the knock-on effects from the escalation in US-China trade tariffs. Upcoming data include Markit Malaysia's July PMI Manufacturing data tomorrow followed by June's trade numbers on Friday.

Corp Bonds/Sukuk

- Corporate Bonds/Sukuk saw little action with secondary market trades at a mere RM105m with trades mainly across the GG-part of the curve as yields continued to decline. The govt-guaranteed DANA 29's closed 2-30bps lower compared to previous-done levels between 3.70-71% levels. Much of the other trades were odd-lot based denoting possible interest from retail segment. The banking space saw CIMB Thai 26NC21 close 5bps lower at 3.85%. Expect institutional interest to return for the remainder of the week.

Daily Trades : Government Bond

Securities		Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)
MGS	10/19	3.072	404	3.062	26/07/2019	1
MGS	11/19	3.042	190	3.050	26/07/2019	-1
MGS	03/20	3.139	180	3.129	26/07/2019	1
MGS	07/20	3.152	63	3.132	26/07/2019	2
MGS	10/20	3.196	5	3.173	26/07/2019	2
MGS	02/21	3.232	129	3.240	26/07/2019	-1
MGS	07/21	3.233	2	3.224	26/07/2019	1
MGS	09/21	3.243	1	3.242	26/07/2019	0
MGS	11/21	3.257	2	3.264	26/07/2019	-1
MGS	03/22	3.265	20	3.280	26/07/2019	-1
MGS	09/22	3.341	12	3.348	25/07/2019	-1
MGS	03/23	3.405	30	3.422	26/07/2019	-2
MGS	04/23	3.400	3	3.396	26/07/2019	0
MGS	08/23	3.418	59	3.426	26/07/2019	-1
MGS	06/24	3.422	3	3.426	26/07/2019	0
MGS	07/24	3.457	1	3.473	26/07/2019	-2
MGS	09/24	3.480	56	3.492	26/07/2019	-1
MGS	09/25	3.538	9	3.557	26/07/2019	-2
MGS	07/26	3.538	180	3.535	26/07/2019	0
MGS	11/26	3.582	61	3.599	26/07/2019	-2
MGS	06/28	3.642	84	3.650	25/07/2019	-1
MGS	08/29	3.582	200	3.589	26/07/2019	-1
MGS	06/31	3.796	110	3.806	26/07/2019	-1
MGS	11/33	3.840	1	3.835	26/07/2019	0
MGS	07/34	3.790	25	3.799	26/07/2019	-1
MGS	05/35	3.896	23	3.896	26/07/2019	0
MGS	06/38	3.975	10	3.975	26/07/2019	0
MGS	03/46	4.202	1	4.170	26/07/2019	3
MGS	07/48	4.184	7	4.176	26/07/2019	1
GII	04/20	3.164	50	3.150	26/07/2019	1
GII	03/21	3.242	100	3.244	25/07/2019	0
GII	03/22	3.305	160	3.310	25/07/2019	0
GII	03/26	3.562	10	3.565	26/07/2019	0
GII	07/27	3.640	10	3.640	25/07/2019	0
GII	10/28	3.656	20	3.658	26/07/2019	0
GII	07/29	3.606	3	3.610	26/07/2019	0
GII	06/33	3.852	21	3.850	26/07/2019	0
GII	10/35	3.911	4	3.927	23/07/2019	-2
GII	08/37	4.002	40	4.009	26/07/2019	-1
GII	09/39	4.008	130	3.990	26/07/2019	2
			<u>2416</u>			

Daily Trades : Corp Bonds/ Sukuk

Securities		Rating	Closing YTM	Vol (RM mil)	Previous YTM	Previous Trade Date (dd/mm/yyyy)	Chg (bp)	Spread Against MGS*
Malaysia Debt Ventures Berhad	08/20	GG	3.234	10	3.335	21/06/2019	-10	8
Perbadanan Tabung Pendidikan Tinggi Nasional	08/21	GG	3.345	5	3.748	22/04/2019	-40	10
DanaInfra Nasional Berhad	02/29	GG	3.699	10	3.720	12/07/2019	-2	11
DanaInfra Nasional Berhad	04/29	GG	3.708	10	4.010	08/05/2019	-30	12
DanaInfra Nasional Berhad	07/29	GG	3.710	20	3.902	14/06/2019	-19	12
Aman Sukuk Berhad	10/21	AAA	3.448	1	3.855	30/05/2019	-41	20
Premier Auto Assets Berhad	07/22	AA3	5.349	1	5.350	25/07/2019	0	206
Country Garden Real Estate Sdn Berhad	02/23	AA3	6.445	1	6.455	26/07/2019	-1	306
CIMB Thai Bank Public Company Limited	07/26	AA3	3.846	10	3.896	26/07/2019	-5	31
Edra Energy Sdn Berhad	07/29	AA3	4.600	1	4.739	26/07/2019	-14	101
Segi Astana Sdn Berhad	01/23	AA-	4.859	1	4.860	26/07/2019	0	157
Lafarge Cement Sdn Berhad	12/20	A1	4.050	1	4.106	24/07/2019	-6	90
UMW Holdings Berhad	04/18	A1	4.786	1	4.790	16/07/2019	0	81
TRPlc Ventures Sdn Berhad	01/27	-	10.956	35	10.755	20/12/2018	20	742
Alliance Islamic Bank Berhad	03/19	BBB1	4.541	1	4.745	19/07/2019	-20	57
				<u>105</u>				

*spread against nearest indicative tenured MGS (Source : BPA)

Market/Corporate News: What's Brewing

A return to robust earnings growth is likely to remain elusive for companies on Bursa Malaysia in the second quarter ended June 30, 2019 (2Q19), analysts said. They expect corporate results for the quarter just ended to continue to disappoint amid uncertainty caused by the US-China trade war, slowing global economic growth and domestic headwinds. Some are of the view that corporate earnings performance for 2Q19 could be as bad as 1Q19 adding that performance could be worse on a year-on-year (y-o-y) basis due to the “high base effect”. Still, a more optimistic outlook about the second half of the year (2H19) may be due to “several catalysts”, including greater clarity from the government on its plans to revive mega infrastructure projects that could spur industries’ growth, a cut in the overnight policy rate by Bank Negara Malaysia that would boost disposable income and lift private consumption, and a recovery in commodity prices such as crude palm oil (CPO). Another analyst expects weaker top-line growth and “sticky wages” to put pressure on companies’ earnings in 2Q19. “Generally, the underlying tone of corporate earnings [for 2Q19] is likely to remain weak due to weak top-line growth amid soft demand across the board and subdued sentiment as global and local uncertainties continue,” the analyst said whilst projecting corporate earnings to contract by 5% this year, saying companies are also concerned about rising costs following a rise in minimum wage levels to RM1,100 starting this year. The analyst believes that the worst is not over yet for companies, noting that the market will remain challenging going forward, especially when it comes to lay-offs it can become a “sensitive political issue”. According to another Investment Bank, the latest two results reporting seasons saw disappointment as core net profit of its research universe fell 15% y-o-y in 4Q18 and 10% y-o-y in 1Q19. “In the 1Q19 reporting season, the ratio of stocks with core earnings that missed our forecasts versus that which positively surprised rose to 2.7 times (4Q18: 1.3 times) while just 39% were in-line (4Q18: 47%),” it said in a report on July 1. It added that earnings risks remain tilted towards the downside and has revised downwards the FBM KLCI stocks’ core earnings growth for 2019 to 1.1% from 3.2% estimated early this year. Another house said the Malaysian market’s valuation remains expensive compared with its regional peers despite the lacklustre earnings growth. These factors have resulted in the local stock market becoming less appealing to foreign investors. “In comparison to the regional markets where the price-earnings ratio (PER) is lower and corporate earnings growth is stronger, foreign fund managers will definitely be more attracted to invest in other markets [other] than Malaysia,” it said. Bloomberg data shows that the KLCI was trading at a PER of 20.81 times on Monday, compared with Thailand’s SET of 18.47 times, Jakarta’s JCI of 19.43 times and Singapore’s STI of 13.74 times. The KLCI closed down 5.27 points or 0.32% to 1,642.69 on Monday. Year-to-date, the benchmark index has fallen 5% from 1,766.23. A another prominent Investment bank noted that 1H19 has not been kind to Malaysian equities due to external headwinds and a lack of fresh domestic catalysts. “KLCI was the only benchmark in the region to close 1H in the red (-1.1%) as foreign investors net sold while domestic institutions were cautious,” it said. Foreign flows in Malaysia equities remained negative at about RM4.8 billion in 1H19, which put Malaysia, the highest among regional peers, on foreign net sell compared with net buyers in Indonesia, Thailand, the Philippines and Vietnam. It is keeping the KLCI year-end target at 1,680 points, which implies a 16 times of 12-month forward PER. It also listed some key risks to market earnings growth forecasts as lower-than-expected crude oil and CPO prices, margins pressure

from higher minimum wage, fuel and utility costs and negative government policies. “As for 2020, our forecasts are for growth to be higher at 8.6% for our research universe, 6.7% for the KLCI, partly due to the base effect of negative growth in some sectors in 2019,” the bank said. For the sectoral performance in 2Q19, analysts expect sectors such as plantation, downstream oil and gas (O&G), rubber glove and construction to pose downside risk. Another analyst likes the plantation sector, particularly counters with less diversified business model and a higher operating cost of production due to the weak CPO prices that have dropped more than 15% y-o-y in 2Q19. According to the Malaysia Palm Oil Board, prices of CPO were mostly trading below RM2,000 per tonne during the April-June period. On Monday, the benchmark palm oil contract for October delivery on the Bursa Malaysia Derivatives Exchange closed down RM6 at RM2,061 per tonne. Lee also expects export-oriented companies to deliver relatively better earnings in 2Q19, given that the ringgit has depreciated close to 5% y-o-y against the US dollar. “Although the weak ringgit will translate into higher revenue and earnings for export counters, the impact is likely to be partially offset by the weakening global demand. “Having said that, we believe that the earnings growth for export counters is likely to remain pretty healthy in 2Q19 as the overall global demand has slightly improved compared with the first quarter of the year,” the analyst added. Potential downside risk to sectors such as downstream O&G due to weak product pricing, and glove due to timing of costs pass-through following the surprised gas hike where the market needed some time to absorb the excess capacity resulting from recent expansion by glove makers. Earnings growth for construction companies may remain under pressure in 2Q19 as they have yet to recognise earnings due to projects being postponed or suspended earlier. (Source: *The Edge*)

Rating Action			
Issuer	PDS Description	Rating/Outlook	Action
Islamic Development Bank (IsDB)	Financial Institution (FI) rating	AAA/MARC-1	Affirmed
Tadamun Services Berhad, a trust established by IsDB	Sukuk Wakalah programme of up to RM400 million	AAA-IS	Affirmed
OCBC Bank (Malaysia) Berhad	Financial Institution (FI) rating	AAA/Stable/P1	Reaffirmed

Source: RAM, MARC

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